

Understanding franchising risks

Polls have found many people are attracted to franchising by the promise of flexibility and independence in their work. However, not all franchises can offer franchisees the level of freedom and autonomy they desire.



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Here are eight common misconceptions about franchising that whichfranchise.co.za has identified, arising primarily out of lack of understanding of the franchisor-franchisee relationship.

1. Be wary of franchises that offer the opportunity to make a lot of money without a lot of work, because many of the clichés of business are true, such as ‘The more you put in, the more you get out.’ If a ‘get rich quick’ business is what you are looking for then franchising is probably not for you. Any businessperson knows there are no guarantees in business and no reputable franchisors will ever promise instant financial gratification. Many franchisees enter into a franchise relationship with incorrect expectations regarding their potential income. This is just one of the reasons to speak to other franchisees to see if, even when a franchise is running profitably, it will generate income to meet your expectations.
2. You are your own boss. This is one of the main selling points of franchising, yet it is only partially true. Franchisors have varying degrees of contractual control over franchisees. Any franchisee will still answer to corporate shareholders and is only boss of his operation. The corporate office of a restaurant for instance can enforce upgrading premises and equipment to ensure brand standards.

3. You are 'buying' a franchise. Of the most widely held misconceptions is probably that by signing the franchise agreement, you are 'buying a franchise'. In reality, you are investing in a franchise system to utilise its brand name, operating system and ongoing support for the period of the contract.
4. Your business will run without you. Yes, you will have the luxury of starting from day one with all operating and marketing systems already intact. However, be prepared to work long hours, as most franchises will require that you run the business full time. It can take a couple of years for the business to break even.
5. First-time franchisees are often upset when they discover there are additional unforeseen expenses and fees to pay. This is a reality of franchising, as it is with any other business. You might have to dip into your savings, so it is advisable to have another source of income - perhaps from a spouse or partner.
6. Litigation is a fact in the business world, so you should probably find a good franchise lawyer to explain your contracts and agreements to you, just in case. There are specific laws such as the Consumer Protection Act (CPA) that help protect franchisees from unscrupulous franchisors. A CPA requirement is that the franchisor should also provide the franchisee with a disclosure document containing pertinent financial and other information on the franchise opportunity.
7. Franchisees often wrongly assume the franchise head office will take care of all the marketing for them, all they do is pay royalties and marketing contributions every month and a percentage goes to running print, television and radio ads on their behalf. In fact, this marketing actually does more for the franchise branding than it does for the franchisee. So be prepared to market in the immediate area. Most franchisors will provide franchisees with a guideline on the amount they should spend on local marketing.
8. When things go wrong, franchisees often think the franchisor will 'have their back' but in reality it has to manage its brand and customers when something goes wrong. The business risk remains with the franchisee, which is why it is important to do your homework properly before investing in a franchise.

Avoiding misconceptions

- Only choose a business in which you believe you can excel in and preferably have some experience – a business that matches your singular set of skills and interests as closely as possible.
- Do your own research rather than accept the sales pitch. Google the franchise's name and check specifically for negative comments though treat them with caution, as any franchise system has a few disgruntled players. Then research again, including the viability of the industry the franchise is in.
- Meet the people – it is smart to visit or call franchisees that already operate one of the franchises. Check how happy they are personally and financially and verify some of the things contained in the franchise agreement.